

**DETERMINANTS OF MARKET DRIVEN COMPANIES:
A STUDY ON SMALL ENTERPRISES OPERATING
IN THE HERITAGE CONSERVATION ZONE
OF LITTLE INDIA, PENANG**

By

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Dedication

.....to my family

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ABSTRAK

Syarikat-syarikat kecil yang beroperasi dalam zon pemuliharaan warisan di Pulau Pinang menghadapi cabaran dalaman dan luaran seperti kekurangan sumber kewangan, dan ancaman dari pesaing-pesaing. Di samping itu, mereka juga perlu mematuhi peraturan-peraturan kerajaan tempatan di kawasan tersebut. Memandangkan syarikat yang berorientasi pasaran (“market driven”) terbukti berjaya dalam perniagaan mereka, maka syarikat –syarikat kecil ini patut mengamalkan ciri-ciri syarikat berorientasi pasaran untuk menghadapi cabaran-cabaran ini. Kajian ini mengkaji faktor-faktor yang mempengaruhi pembangunan syarikat berorientasi pasaran dalam kawasan pemuliharaan warisan. Model yang digunakan oleh Jaworski dan Kohli (1993) dan Avlonitis dan Gounaris (1999) akan diguna pakai dalam kajian ini. Faktor kerajaan telah diambilkira dalam kajian ini untuk mengkaji kesan tindakan kerajaan terhadap syarikat berorientasi pasaran. Data diperolehi daripada 104 responden yang terdiri daripada pemilik dan pengurus syarikat kecil yang beroperasi dalam kawasan pemuliharaan Little India, Pulau Pinang. Keputusan kajian menunjukkan faktor-faktor khusus syarikat mempengaruhi pembangunan syarikat berorientasi pasaran kecuali tahap pemusatan (level of centralization). Perubahan teknologi dan jangkaan kadar kenaikan pasaran masa depan mempengaruhi pembangunan syarikat berorientasi pasaran. Tindakan kerajaan tidak memberi kesan kepada pembangunan syarikat berorientasi pasaran, kecuali infrastruktur. Dengan mengetahui faktor-faktor dan kesan mereka terhadap pembangunan syarikat berorientasi pasaran, syarikat-syarikat kecil dapat mengoptimalkan penggunaan sumber-sumber syarikat, meningkatkan prestasi syarikat dan menggunakan peluang luaran untuk kesinambungan operasi mereka dalam persekitaran yang sentiasa berubah.

ABSTRACT

The small enterprises (SEs) operating in the heritage conservation zone of Penang encounter challenges internally and externally in their operation such as financial constraints, and competitors' threat. They also need to comply with the rules and regulations imposed by the local authorities concerning the area. As it is proven that market driven strategy enhance company performance, the small enterprises in the heritage conservation zone should develop market driven behavior to face the challenges. This study investigates the determinants of market driven enterprises in the heritage conservation zone. The model developed by Jaworski and Kohli (1993) and Avlonitis and Gounaris (1999) were adopted in this study. In addition government involvement in the heritage conservation zone were examined to know the impact of government actions on the development of market driven enterprises. Data were gathered from 104 respondents comprising business owners and managers of small enterprises operating in the heritage conservation zone of Little India, Penang. The findings indicate that in general the company specific factors have influence on the development of market driven SEs, except the level of centralization. The technological changes and expected market growth rate of market specific factors have effects on the development of market driven SEs. The government actions do not appear to impact the development of market driven except for the infrastructure. By knowing the factors and their impact on the development of market driven behavior, the SEs will be able to utilize their resources, improve their businesses and exploit external opportunities for their survival in the changing environment.

Chapter 1

INTRODUCTION

1.1 Introduction

Market driven companies are companies that have the ability to sense events and trends in their market ahead of their competitors, anticipate more accurately the response to their actions designed to retain and attract customers and improve channel relations, or defeat competitors and act on information in a timely and consistent manner. These abilities help the companies to deliver superior customer values and achieve competitive advantage (Day 1994; Vorhies, Harker & Roa, 1999).

Small enterprises should develop market driven behavior in order to survive in the changing market environment and avoid being overwhelmed by big businesses. Pelham and Wilson (1996) suggested that market orientation is likely to be a vital factor for the success of small enterprises since they lack the financial means to do other sources of business profitability such as research and development and implement low cost leadership strategy. In order to be market driven, they need to know what are the factors that need to be considered to become market driven. However there are limited researches that have been conducted into the determinants of market orientation with the pioneering study by Jaworski and Kohli (1993) being one of the few (Gray & Hooley, 2002). The present study is an attempt to know the factors that influence the development of market driven small enterprises (SEs) in Penang. By knowing the factors and the sources, the small enterprises will be able to deploy their resources, exploit external opportunities and improve their operations to deliver superior customer values and to gain competitive advantage.

1.2 Background of the Study

The purpose of the study is to find out the determinants of SEs operating in the heritage conservation zone of Little India, Penang to become market driven. The current development in Penang on the conservation of old buildings for the purpose of heritage tourism has led the interest to study the factors that contribute to the development of market driven behavior in SEs. The SEs operating in the area not only encounter challenges internally and externally such as financial constraints and competitors' threat but also need to comply with rules and regulation imposed by the local authorities.

The chapter will further explain on the current development and happenings concerning heritage tourism in some city in the world and Malaysia generally, in Penang particularly.

1.2.1 Heritage Tourism

World Tourism Organization (WTO) predicted that cultural tourism will be one of the five key tourism market segments in the future (Penang Past and Present, August 1999). Cultural heritage can serve as a tourist attraction, while tourism can be seen as a way to provide the necessary financing to rehabilitate, interpret and conserve the heritage resources.

Lijiang, an ancient town in Yunnan Province of China has obtained tremendous benefits as a result of cultural heritage tourism since listed in the UNESCO World Heritage List. Table 1.1 below shows an increase in the domestic and foreign tourists arrivals in Lijiang from 1999 to 2002. There was an increase of 82 % in the number of domestic tourists visited Lijiang in 2002 compared to 1999, while an increase of 45% in the number of foreign tourists in 2002 compared to 1999.

Overall there was an increase of 79% in the number of tourists visited Lijiang through out the 4 years (1999-2002).

Table 1.1
Tourists Arrivals in Lijiang, China

Category	1999	2000	2001	2002
Domestic Tourists	2.6661 Million	2.718 Million	3.02 Million	3.24 Million
Foreign Tourists	69, 000	90,000	105, 000	153,400
TOTAL	2.7351 Million	2.808 Million	3.125 Million	3.4 Million

Source : UNESCO – Nordic World Heritage Foundation Workshop on Culture Heritage Management and Tourism, January 2003.

Table 1.2 below shows the increase in the related activities in Lijiang as result of its listing in the World Heritage List. The table shows an increase in the service related businesses in Lijiang which means a remarkable contribution to the economics of local people.

Table 1.2
Community Participation in Lijiang, China

No	Item	1999	2002	% Increase
1	No. of local tour guides	1300	3000	130
2	No. of food outlets owned and run by locals	100	125	25
3	No. of accommodation facilities owned by locals	90	100	11
4	No. of souvenir/craft shops owned and run by locals	80	112	40
5	No. of locals employed in traditional performing arts	50	100	100

Source : UNESCO – Nordic World Heritage Foundation Workshop on Culture Heritage Management and Tourism, January 2003.

Vigan is another small heritage city in Philippines, has experienced a significant increase in tourists arrivals since listed in the UNESCO World Heritage List. The Table 1.3 shows the increase in the tourists arrivals in Vigan as the result of

its listing. The number of the domestic tourists and foreign tourists visited Vigan has increased by 80% and 77% respectively in 2002 compared to the year 1999. The number of tourist visited Vigan overall has increased by 79% through out the 4 years (1999 to 2002).

Table 1.3
Tourists Arrivals in Vigan, Philippines

Category	1999	2000	2001	2002
Domestic tourists	23,328	24,192	26,352	29,160
Foreign tourists	11,088	11,722	12,885	14,256
Total	34,416	35,914	39,327	43,416

Source : UNESCO–Nordic World Heritage Foundation Workshop on Culture Heritage Management and Tourism, January 2003.

1.2.2 Heritage Tourism in Malaysia

Melaka has been experiencing an increase in local and foreign tourists arrivals as a result of its aggressive efforts of heritage tourism projects. Table 1.4 below shows an increase in tourist arrivals in Melaka from 1990 to 2002. The domestic tourists and foreign tourists visited Melaka have increased by 31% and 52% respectively through out the 4 years (1999 to 2002).

Table 1.4
Tourists Arrivals in Melaka , 1999-2002 (million)

Category	1999	2000	2001	2002
Domestic tourists	0.56	0.84	1.48	1.80
Foreign tourists	0.62	0.78	1.02	1.20
Total	1.18	1.62	2.50	3.00

Source : UNESCO–Nordic World Heritage Foundation Workshop on Culture Heritage Management and Tourism, January 2003.

As shown in Table 1.5, tourist arrivals in Penang have also increased generally by 60% in the year 2003 compared to the year 2000 because of the State Government's efforts to promote heritage tourism. Even though the domestic tourists visited Penang have increased by 76 % through out 2000 to 2003, but there was a drop in the number of foreign tourists visited Penang i.e. 49% in the year 2003 compared to the year 2000. The sector was severely hit in the year 2003 due to the outbreak of Severe Acute Respiratory Syndrome (SARS) and war in Iraq.

Table 1.5
Penang Tourists Arrivals, 2000-2003

Category	2000	2001	2002	2003
Domestic tourists	1,434,701	1,544,125	1,640,723	1, 868,869
Foreign tourists	2,350,791	1,925,8189	1,784,585	1,157,750
Total	1.18 million	1.62 million	2.50 million	3.00 million

Source : Majlis Tindakan Pelancongan Negeri Pulau Pinang, 2003

The sharp drop in the foreign tourists arrivals to Penang, have alerted the State Government to take measures to revitalize Penang as tourist destinations. One of the measures taken is to list Penang in the UNESCO World Heritage List.

1.2.3. Nomination of Penang and Melaka in the UNESCO World Heritage List

UNESCO has proposed to the State Government of Penang and Melaka to jointly nominate their heritage sites in the World Heritage List because of their rich cultural heritage and architectural buildings (Penang Past & Present, 1999). Penang and Melaka have the potential to be listed in World Heritage List as they have similar historical background as port cities, British's Straits Settlements and with multicultural societies.

In order to be listed, certain criteria need to be met by both parties such as designation of heritage conservation zone and buffer zone, site management plan and protective measures and implementation.

The State Government of Penang has designated a part of Inner City of George Town as the heritage conservation zone (UNESCO Conference/ Workshop on the Adaptive Re-use of Historic Properties in Asia and the Pacific). The heritage conservation zone for the purpose of nomination in the World Heritage List covers the Cultural Precinct (Chulia – Love – Muntri Street), Historical Commercial Centre (Little India and traditional business communities), Waterfront Business – Financial District (Banking, Shipping and Corporate Business), Mosques and Clan Houses; and Market and Shopping Precinct (Traditional Retail and Neighbourhood Markets). The area consists of more than 3000 heritage buildings, which are mostly town houses, shop houses, clan houses and religious buildings. Local authorities have taken measures to ensure the preservation of the historical buildings as they realized the importance of heritage buildings to Penang's tourism industry .

The heritage buildings in the Inner City of George Town are of different architectural styles depending upon the period they were built, architectural features and styles of structures. These buildings were classified into 7 categories based on the criteria mentioned above, namely Indo/Malay Compound Houses; Early, Mid and Late Straits Shophouses; Early-and-Late Straits Free Classical; Art Deco; Art Moderne and Late Modern/International.

The Federal Government also plays a role to coincide with the efforts of the State Government of Penang and Melaka to list Penang and Melaka in the World Heritage List.

1.2.4 Federal Government Role in Heritage Conservation

The Federal Government has shown interest in the heritage conservation and cultural preservation, as it will contribute to the economics of the people and for the future generations. Bringing social and economic life into historic buildings and precincts not only fosters community ownership and ensure long term value and survival of heritage but also stir commercial activities in these areas. (Reynolds, Mangan, Wyld and Heath, 1998)

The Federal Government also supported the intention of Penang and Melaka to be listed in the UNESCO World Heritage List. The Federal Government has allocated RM1 billion for the development of tourism industry which includes allocation for the restoration and conservation of heritage buildings as tourism related product and infrastructure in the Eighth Malaysian Plan (1996 – 2005).

The Federal Government has taken further steps to amend the Town and Country Planning Act 1976 for heritage conservation which allows tax deductions and provide financial aids to the owners of heritage buildings and sites (The Star, February 9, 2004).

1.3 Little India, Penang

Little India of Penang is located in the Inner City of George Town bordered by Chulia Street, Beach Street, Church Street and Jalan Masjid Kapitan Keling. There are about 400 shophouses in the area of which many of these are more than 100 years old. Business activities in this area are mainly retailing, wholesale, restaurant, services such as salons, money changers, offices and hotels. Almost 80 % of the businesses are retailers and wholesalers. Most of them have been operating in the area

since the 18th century. (The Economics of Heritage, UNESCO Conference/ Workshop, 1999)

As, Little India has been designated by the State Government of Penang as a heritage conservation zone for the purpose of listing in the UNESCO World Heritage List, the State Government has been imposing some restrictions in the area such as restrictions on repair and renovations of business premises, and control on the development of the area. Furthermore, with the Repeal of Rent Control Act in 2000, most of the small businesses have been facing a hike in their rental rates (The Economics of Heritage, UNESCO Conference/ Workshop, 1999). On the other hand, the Local Government has been implementing projects to revitalize the area such as upgrading the infrastructure and public facilities in the area. Besides that, the government also helps to promote the area through events such as shopping carnival, Deepavali Open House and through the overseas promotions.

1.4 Problem Statement

Small businesses have been playing a vital role in the economy of many countries because of their effect on job creation, innovation and their importance to big businesses as sellers of their products to consumers and as providers of services, supplies and raw materials (Shun & Cheng, 1998; Yeh, 1998; Hill & Wright, 2001; Sulaiman & Hashim, 2000; Gray & Hooley, 2002).

Many of the previous studies in Malaysia are directed more towards reporting on SMEs' characteristics, owner's characteristics, problems and constraints faced by SMEs and assistance programmes provided by the government (Chee, 1986; Ling, 1990; Lisa, 1990; Hassan, 1992; Hashim, 1999). Not much of the management disciplines such as marketing and operations that have been utilized by the researchers

in investigating SMEs despite of their role in the economy (Sulaiman & Hashim, 2000).

Even though many of the previous studies have proven the positive relationship between market driven or market oriented small and medium sized firms and their performance (Pelham & Wilson, 1996; Kwaku, 1997; Shun & Cheng, 1998; Pelham, 2000), but only a few have been conducted to investigate the determinant factors of the market driven small and medium sized firms (Jaworski & Kohli, 1993; Shun & Cheng, 1998 and Avlonitis & Gounaris, 1999). Gray and Hooley (2002) proposed further research to be conducted into the determinants market driven concerning service firms.

Therefore, it is useful and interesting to investigate the determinants of market driven SEs operating in Malaysia as market driven firms have been proven to have significant relationship with the performance of firms by the past academicians and practitioners (Pelham & Wilson, 1996; Kwaku, 1997; Shun & Cheng, 1998; Pelham, 2000). More over, it is also useful to find out the findings of previous studies (Jaworski & Kohli, 1993; Shun & Cheng, 1998 and Avlonitis & Gounaris, 1999) on the determinants of market driven enterprises in other countries, whether are true for SEs operating in Malaysia. The aim has been to investigate the determinants of market driven SEs operating in heritage conservation zone in Penang because the current development in Penang where much attention have been given by the local government and public on heritage conservation. The State Government has been taking measures such as imposing restrictions on the refurbishment and restoration of old buildings in the heritage conservation zone in order to list Penang in the World Heritage List. These measures may have an impact on the SEs operating in the Historic Commercial Centre of Little India. Moreover, the SEs also have to face

other challenges such as environmental pressures and lack of resources to pursue innovative strategies for business profitability.

In order to be profitable and have sustainable competitive advantage, SEs operating in Little India must enhance their marketing capabilities with all possible challenges in mind. As market driven strategy has been proven to be vital for the success of small businesses, it is important for the SEs to study their environment, gather relevant information and act on the information. By doing so, the SEs will be able to optimize the use of their resources and grab any external opportunities for their survival. As such the study seeks to address the following questions :-

1. Do company specific factors have an influence on the development of market driven SEs operating in the heritage conservation zone?
2. Do market specific factors affect the development of market driven SEs operating in the heritage conservation zone?
3. Do government actions have an impact on the development of market driven SEs operating in the heritage conservation zone?

1.5 Objectives of the Study

The main objective of the study is to find out the factors that will influence the development of market driven SEs operating in heritage conservation zone of Little India. The findings of the study also will be useful to businesses operating in other areas of heritage conservation zone or in heritage buildings in Penang and Melaka.

The specific objectives of the study are as follows:-

1. to investigate whether company specific factors have influence on the development of market driven SEs operating in the heritage conservation zone.

2. to examine whether market specific factors affect the development of market driven SEs operating in the heritage conservation zone.
3. to examine whether government actions have an impact on the development of market driven SEs operating in the heritage conservation zone.

1.6 Significance of the Study

In the rapidly changing environment, it is equally important to both large and small enterprises to sense events and trends in their market environment, disseminate the relevant information among the employees and act on the information in a timely and coherent manner to create value to their customers and to achieve sustainable competitive advantages (Day, 1994; Vorhies, Harker & Rao, 1999). The establishment of market driven will enhance the performance of businesses and increase their effectiveness. (Pelham & Wilson, 1996; Kwaku 1997)

This study can be significant to the SEs operating in Little India and other areas of heritage conservation zone or SEs operating in heritage buildings because it is important for the SEs to identify the factors that will influence the development of market driven behavior. By knowing the sources and the impact, SEs will be able to deploy their resources, exploit external opportunities and improve their operations and practices to retain old customers and attract new ones, and to achieve sustainable competitive advantage.

On the other hand, the findings may provide some information to the authorities about SEs' opinions on the government actions in the heritage conservation zone . This will help the authorities to be more cautious in implementing future projects concerning public areas.

The study will also contribute to the existing knowledge on small enterprises operating in Malaysia as a reference and a guide to academicians.

1.7 Scope of the Study

The study will focus on the small enterprises operating in the heritage zone of Little India, Penang. It will adopt the model developed by Jaworski and Kohli, 1993 and Avlonitis and Gounaris, 1999. 3 main variables i.e. Company Specific Factors, Market Specific Factors and Government Actions will be focused in the study to gauge the factors that have an influence on the development of market driven SEs operating in the Little India.

1.8 Organization of the Thesis

This chapter introduces the subject matter which forms the focus of the study, with emphasis on the problem statement, research questions and objectives, significance and the scope of the study. Chapter 2 encompasses a review of the past literature on SMEs in Malaysia, market orientation, market driven concept, link of market orientation and performance, market orientation of SMEs, the determinants of market orientation, government involvement in SMEs matters and heritage conservation. This is followed by a discussion on the theoretical framework, design of the study and methodological procedures in Chapter 3. The Chapter 4 presents the various analysis of the data collected and the respective findings. Finally the results of the findings, highlights the limitations, implication and some suggestions for future research will be discussed in the Chapter 5.

1.9 Summary

As Penang is becoming famous for its cultural heritage tourism, the benefits to SEs in the heritage conservation zone cannot be denied. However SEs should adopt market driven behavior from now on in order to gain sustainable competitive advantages and long term market success.

Chapter 2

LITERATURE REVIEW

2.1 Review of Relevant Literature

This chapter will look at the relevant literature that forms the basis for this study. The main objective of the study is to find out the influencing factors or determinants of market driven SEs. This chapter will provide a summary of the literature review done on Small and Medium Sized Enterprises (SMEs), market orientation, market driven concept, market orientation in relation to performance, determinants of market orientations and government involvement in SMEs matters and heritage conservation.

2.2 Small and Medium - Sized Enterprises

Small and medium - sized enterprises (SMEs) usually defined by using quantitative criteria such as no of employees, annual income, annual turnover and shareholders' fund. However a simple definition of small business given by Griffin and Ebert (1991) as the one that is independently owned and managed and does not dominate its field.

Ministry of International Trade and Industry of Malaysia has provided definition to SMEs in service sector as follows:-

- a. Small sized enterprise is an enterprise with less than 50 full time employees and with annual turnover of not more than RM10 million.
- b. Medium sized enterprise is an enterprise between 51 and 150 employees, and with annual turnover of between RM10 million and RM25 million.

The above are the most recent definitions as reported in the New Straits Times of January 19,1998 (Sulaiman & Hashim, 2000).

Sulaiman and Hashim (2000) have highlighted 2 major issues with regards to the research on SMEs in Malaysia i.e. SMEs or SMIs and inappropriate definitions of SMEs . They proposed the use of ‘enterprises’ instead of ‘industries’ as the accurate and appropriate term to mention the small and medium sized enterprises. They found that the definitions of SMEs in Malaysia are not uniform where different agencies used different criteria to classify SMEs. They proposed SMEs definition should be quantitative-qualitative in nature to capture the true nature of SMEs in Malaysian context.

Many of the previous studies in Malaysia are more towards reporting on SMEs’ characteristics, owner’s characteristics, problems and constraints faced by SMEs and assistance programmes provided by the government.(Chee, 1986; Hassan, 1992; Hashim 1999; Sulaiman & Hashim, 2000)

Chee (1986), Hassan, (1992) and Hashim (1999), reported that most of SMEs encountered problems and constraints because they are lack of resources and capabilities such as using out-dated technology in their business operations. Relatively only a few studies focus on empirical and theoretical research of SMEs, particularly concerning management disciplines. (Sulaiman & Hashim, 2000)

Many studies that have been done in other parts of the world on the determinants of small firm performance such as influences of small firm strategy on firm performance by Miller and Toulouse, (1986), Galbraith and Schendel, (1983), and Pelham, (2000). No significant performance difference was found for small firms with fit between competitive strategy and administrative mechanisms compared to firms that did not have a fit (Barth, 2003)

2.3 Market Driven Concept

Marketing academics have long held the belief that companies should conduct marketing activities under the philosophy of the marketing concept. The marketing concept focuses on offering superior quality products and services to customers (Kotler, 2003).

Research into understanding and implementing the philosophy of marketing concept as market orientation were initialized by Narver and Slater (1990) and Kohli and Jaworski (1990). Narver and Slater (1990) interpret market orientation as culture where they broaden the marketing concept to include both customer needs and competitors' actions as well as a strategic focus. On the other hand, Kohli and Jaworski (1990) look into market orientation as behavior where market orientated companies possess the ability to generate, disseminate and respond to information about customers and competitors.

In the market orientation literature, researchers are confronted with a wide range of concept such as market oriented, marketing oriented, market driven, market orientation, close to customers and customer focus (Shapiro, 1988; Deshpande, Farley & Webster, 1993). Basically all of them develop different forms of market orientation while reflecting to same core meaning – that of satisfying the customer it serve.

Based on the researches by Narver and Slater (1990), Kohli and Jaworski (1990) and Deshpande et al. (1993), Day (1994) have define market orientation companies as market driven companies who are superior in their market-sensing capabilities and customer linking capabilities. Market driven companies possess the ability to sense events and trends in their market ahead of their competitors, anticipate more accurately the response to their actions designed to retain

and attract customers or improve channel relations, or defeat competitors and act on the information in timely and consistent manner (Day, 1994; Vorhies et al, 1999).

Market driven companies are ones that successfully implement the marketing concepts because they are characterized with a set of values, beliefs and attitudes to put customer interest first (Jaworski & Kohli, 1993; Narver & Slater 1990, Day,1994; Vorhies et al. 1999). They adopt market orientation behavior i.e. gather market intelligence, analyze and disseminate the information developed across departments and employees and use this information to develop appropriate strategic and tactical responses in order to deliver superior customer value and gain competitive advantage (Narver & Slater 1990; Deshpande et al. 1993; Jaworski & Kohli, 1993; Day, 1994).

Gray and Hooley, (2002) have offered a more comprehensive market orientation definition as the implementation of a corporate culture or philosophy which encourages market sensing behaviors i.e. gathering, disseminating and responding to information on customers, competitors and the wider environment in ways that add value for shareholders and stakeholders.

2.4 Market Orientation - Performance Link

Marketing scholars have long argued that businesses which improve its market orientation will enhance its performance (Levitt, 1960; Kotler & Anderson, 1987). Many researchers have examined the nature of market orientation and their links to performance and found the significant relationship between the two variables (Narver & Slater, 1990; Jaworski & Kohli, 1993; Deshpande et al., 1993; Vorhies et al., 1999).

The relationship between the both variables also found to be significant in small and medium business sector (Pelham & Wilson, 1996; Shun & Cheng, 1997; Kwaku, 1997; Pelham, 2000). Narver and Slater's (1990) findings indicated that the small strategic business units (SBUs) with high degree of market orientation outperformed the large SBUs with low level of market orientation but with low cost advantages. Pelham and Wilson (1996) found the firm's strategies, firm structure and competitive environment had a lesser impact on performance compared to market oriented culture. It also found that there are limited influences of industry environment on the performance of small business (Pelham, 2000).

However little research has been conducted on factors that determine the development of market orientation. Jaworski and Kohli (1993) are the one pioneered the research on the antecedents of market orientation (Gray & Hooley, 2002)

2.5 Determinants of Market Orientation

Determinants of Market Orientation are factors that influence the development of the set of attitudes and set of practices that comprise the concept of Marketing Orientation (Avlonitis & Gounaris, 1999). Past literature on 2 main group of factors i.e. company specific factors and market specific factors are briefly provided below:-

2.5.1 Company Specific Factors

The company internal environment consists of tangible and intangible resources, capabilities and core competencies which help the company to provide value added products or services to customers and achieve competitive advantage. These factors determine what the company can do (Hitt, Ireland & Hoskisson, 2001).

Elements of company internal environment factors or company specific factors that have been identified in previous studies, as determinants of market oriented or market driven companies are Management Factors, interdepartmental dynamics, skills of managers or employees and organization systems (Jaworski & Kohli, 1993; Shun & Cheng, 1998; Pulendran et al., 2000). The present study did not consider interdepartmental dynamics because the study focus on small enterprises which probably involved relationship between owners or owner manager with employees. Instead, the study has included skills of employees as this factor is important for the small enterprises to build up customer relationship. The following are the pertaining literature of the company specific factors :-

a. *Top Management Emphasis*

Marketing behavior of small firms is related to the motivation, belief, attitude and the objectives of owner manager of small firms (Jaworski & Kohli, 1993). The management plays a critical role in shaping an organization's values and orientation (Hambrick & Mason, 1984; Webster, 1988). Management reinforcement of the importance of market orientation is likely to encourage the individuals in the organization to generate, disseminate and respond to market intelligence (Levitt 1969). In many studies, the top management emphasis is found to be significant related to the market orientation (Jaworski & Kohli, 1993; Shun & Cheng, 1998; Pulendran et al. , 2000).

b. *Top Management Risk*

Market oriented companies need to be responsive to the changing market requirements which often calls for introduction of new products or services to match evolving customer needs and wants (Jaworski & Kholi, 1993). In the process of

establishing market orientation, the top management will have to assume some amount of risk (Avlonitis & Gounaris, 1999). Entrepreneurial oriented small businesses are organizations who are willing to accept risk (Hill & Wright, 2001). The management willingness to take risk and accept failures will encourage the employees to generate, disseminate and respond to the changes in the environment (Jaworski & Kholi, 1993). The Management willingness to take risk found to be significant in relation with market orientation of the organization. (Jaworski & Kholi, 1993; Avlonitis & Gounaris, 1999).

c. *Skills of employees*

Skills of manager and employees are important determinants for small firm growth (Chaston & Mangles, 1997). Chaston and Mangles (1997) emphasis invest in that continual development of employees will enhance the small firms future performance. Shun and Cheng (1998) found that management emphasis on enhancing manager and employees skills such as providing training, is an important determinant of market orientation.

d. *Level of Centralization and Level of Formalization*

Centralization is defined as the delegation of decision- making authority throughout an organization and the extent of participation by organizational members in decision making (Aiken & Hage, 1968). Formalization is defined as the existence of specific rules, authority relations, communications, norms, procedures and sanctions that characterize the operations of an organization (Hall, Haas & Johnson, 1967). Many empirical research findings shown that both centralization and formalization are inversely related to market orientation (Deshpande & Zaltman,

1982; Jaworski & Kohli, 1993). Avlonitis and Gounaris (1999) convinces that company that keep informal organizational framework, maintain decentralised organizational structure and show great risk tolerance developed market orientation and exhibit market oriented behavior. Pelham and Wilson's (1996) study on SMEs in manufacturing sectors indicates the formalization significantly influence market orientation but centralization inversely related to market orientation, which is consistent with other studies mentioned above.

e. Reward systems

Creation of market based measures for performance, will help an organization to develop market orientated business (Webster, 1988). Previous empirical studies have proven individuals in the organization that administer reward systems based on market factors, are more likely to generate market intelligence, disseminate internally and responsiveness to market needs (Jaworski & Kohli, 1993; Shun & Cheng, 1998; Pulendran et al, 2000).

2.5.2 Market Specific Factors

Market specific factors refers to the factors in the industry environment of an organization. They are buyers, suppliers, product substitutes, threat of new entrants and intensity of rivalry among competitors that directly influences an organization and its competitive actions and responses (Hitt, Ireland & Hoskisson, 2001).

In this study, 6 major market specific factors will be studied to know their effect on the development of market driven SEs operating in the heritage conservation zone. They are Buyers' Power, Suppliers' Power, Barriers to Entry, Barriers to Exit, Technological changes, competitive intensity and Expected Market Growth Rate. The

following paragraph will briefly explained the pertaining literature on the company environmental factors.

Organization in more competitive environments may be expected to be more market oriented (Lusch & Laczniak, 1987; Jaworski & Kohli, 1993). Linkage between market orientation and performance depend on the environmental characteristics of an organization (Houston 1986). Many of the previous studies have focused on the 4 main company environmental factors as moderators in the relationship between market orientation and organization performance. They are market turbulence, technological turbulence, competitive intensity and market growth. Market turbulence is the rate of change in the compositions of customers and their preferences, while the technological turbulence is the rate of technological change. The competitive intensity refers to the rate of competition among the players in the market, while market growth refers to the conditions of the market in which the organizations operates.

Jaworski and Kohli (1993) reported that the relationship between market orientation and performance appeared to be consistent across situations characterized by varying level of the market turbulence, competitive intensity, technological turbulence. Greenley (1995) found that market turbulence weakens the relationship between market orientation and business performance. Pulendran et al. 2000, who have conducted a study in Australia similar to Jaworski and Kohli's study (1993), found only market turbulence has the moderating effect on the relationship between market orientation and business performance.

In the context of small businesses, Kwaku (1997) found that market turbulence, competitive intensity and market growth have moderating effects on the market orientation-performance association. However, his findings shown that the

technological turbulence does not affect the small firm market orientation-performance and suggested small firms managers to maintain sound market oriented behaviors irrespective of the rate of change in technology.

Avlonitis and Gounaris (1999) have conducted a research on the factors that determine the degree of market orientation. They suggested that the development of market orientation is determined by internal environment factors (company-specific factors) as well as external environment factors (market-specific factors). Their findings indicated that buyers' power over producers, the absence of barriers to entry for new competitors that might be willing to enter the market, the intensity of competition, rate of technological changes and expectations regarding future market growth rate impel companies to be market oriented. However, they found that barriers to exit and suppliers' power and past market growth rate (5 years back) are not significant and do not appear to influence market orientation development.

2.5.3 Government Actions

In this study, government actions have been taken into account to investigate the determinant factors of market driven SEs operating in the heritage zone because government has been playing a vital role in the heritage conservation of Penang. The local government not only imposed rules and regulations concerning the heritage conservation zone, but also implements projects to revitalise the area. The factors of government actions considered in this study are regulations, infrastructure and promotion. Some of the related literature on government actions concerning the SMEs are discussed briefly in the following paragraphs.

In Malaysia, many of the previous studies regarding government actions are concerning government assistance programmes for SMEs. Many studies reported the

agencies and types of assistance that the agencies provide, but very little studies on the impact and effectiveness of these assistance programmes on SMEs (Chee, 1986; Hassan, 1992; Hashim, 2000; Sulaiman & Hashim, 2000). Government itself has conducted studies on the impact of assistance programmes on the operations of SMEs and revealed that awareness and utilization of the various assistance programmes are less among the SMEs in Malaysia (Sulaiman & Hashim, 2000)

In the other parts of the world, policy-impact studies that have been conducted by previous researchers cover issues such as the need for regulatory reform in consideration of small businesses (Bank & Weidenbaum, 1982), government support to small businesses (Chilton, 1984), government assistance available to small businesses (Gatzinger, 1982; Carbone, 1982; Solomon, 1985) and owner's opinion about government regulations (Peterson, Kozmetsky & Ridgeway, 1984)

Government regulations are usually viewed as having an adverse impact on small businesses and micro enterprise owners. However there are limited academic research on the reactions of business owners on the government regulations. Kuratko, Hornsby and Naffziger (1999) has researched on the small businesses in the Midwest of USA regarding their attitude towards public policy. They found that public policy has an adverse impact on small businesses, places financial burden on them and made competing more difficult.

With regards to heritage conservation, it is generally accepted that laws and policies must provide positive incentives as well as negative controls in order to successfully preserve and use heritage properties for cultural heritage interest (Pickard & Pickerill, 2002). Pickard and Pickerill (2002) proposed some measures to promote private sector involvements in heritage conservation such as government to provide